A Bimonthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

OCTOBER 1981

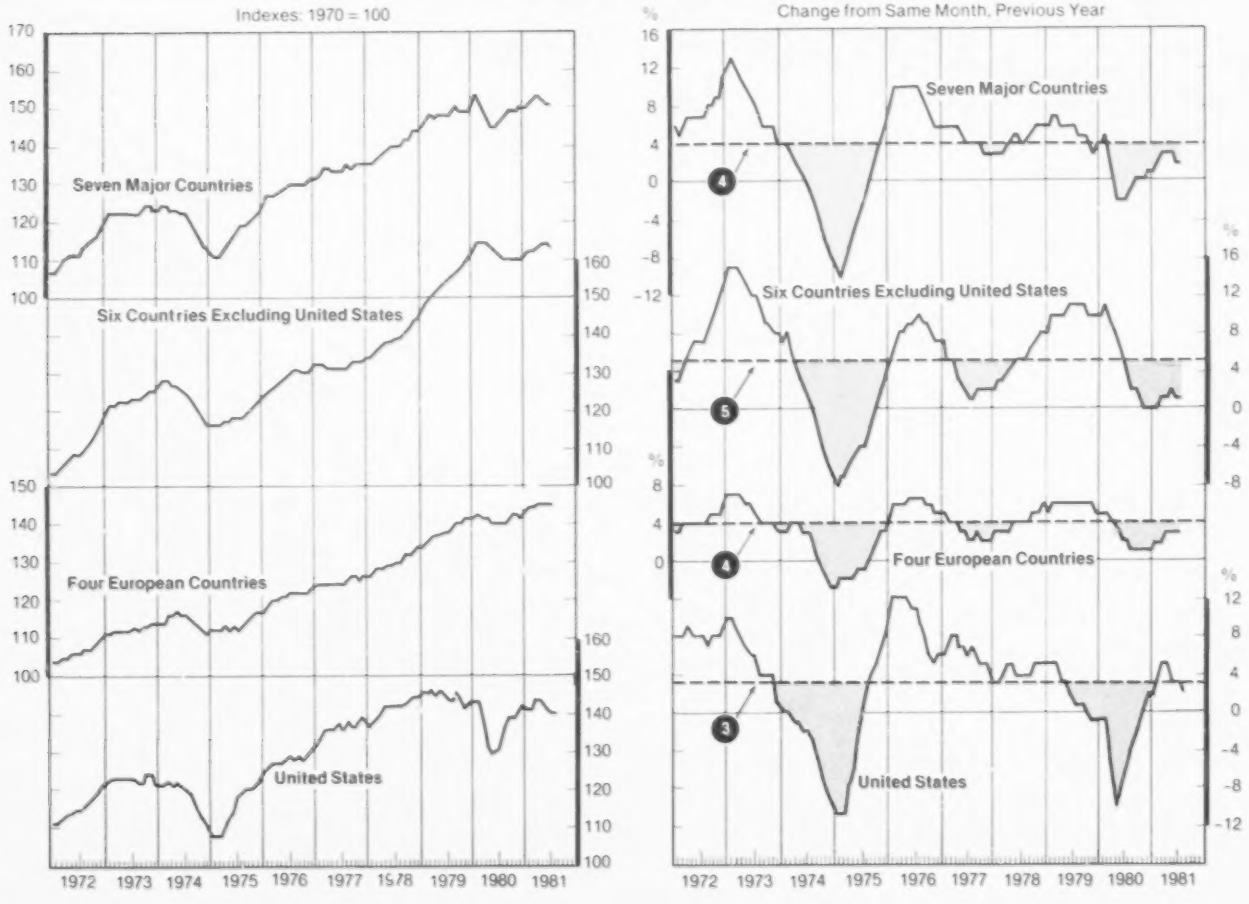
STATUS OF THE LEADING INDEXES

Summary: Hesitancy has spread through the leading indexes for the major industrial countries in recent months, with the greatest weakness in the United States.

	Ten-year Growth Rates	Recent rates of change* 6 mo. ago	3 mo. ago	Latest		Current reading
		(annual rates, percent)				
United States	3	6	5	— 2	(Aug.)	Expansion interrupted.
Canada	5	6	8	4	(July)	Expansion slowing.
Japan	8	— 9	— 3	— 1	(July)	Weak recovery underway.
United Kingdom	2	— 3	1	5	(July)	Recovery underway.
West Germany	4	1	3	2	(July)	Recovery levelling off.
France	5	2	5	4	(July)	Expansion slowing.
Italy	4	1	13	8	(June)	Expansion slowing.
6 countries ex. U.S.	5	—1	3	2	(July)	Expansion slowing.
7 countries	4	2	6	1	(July)	Expansion levelling off.

*Annual rate based on ratio of current month's index to average index over the preceding 12 months.

Leading Business Cycle Indexes


Indexes: 1970 = 100
Change from Same Month, Previous Year
Seven Major Countries
Six Countries Excluding United States
Four European Countries
United States
1972 1973 1974 1975 1976 1977 1978 1979 1980 1981

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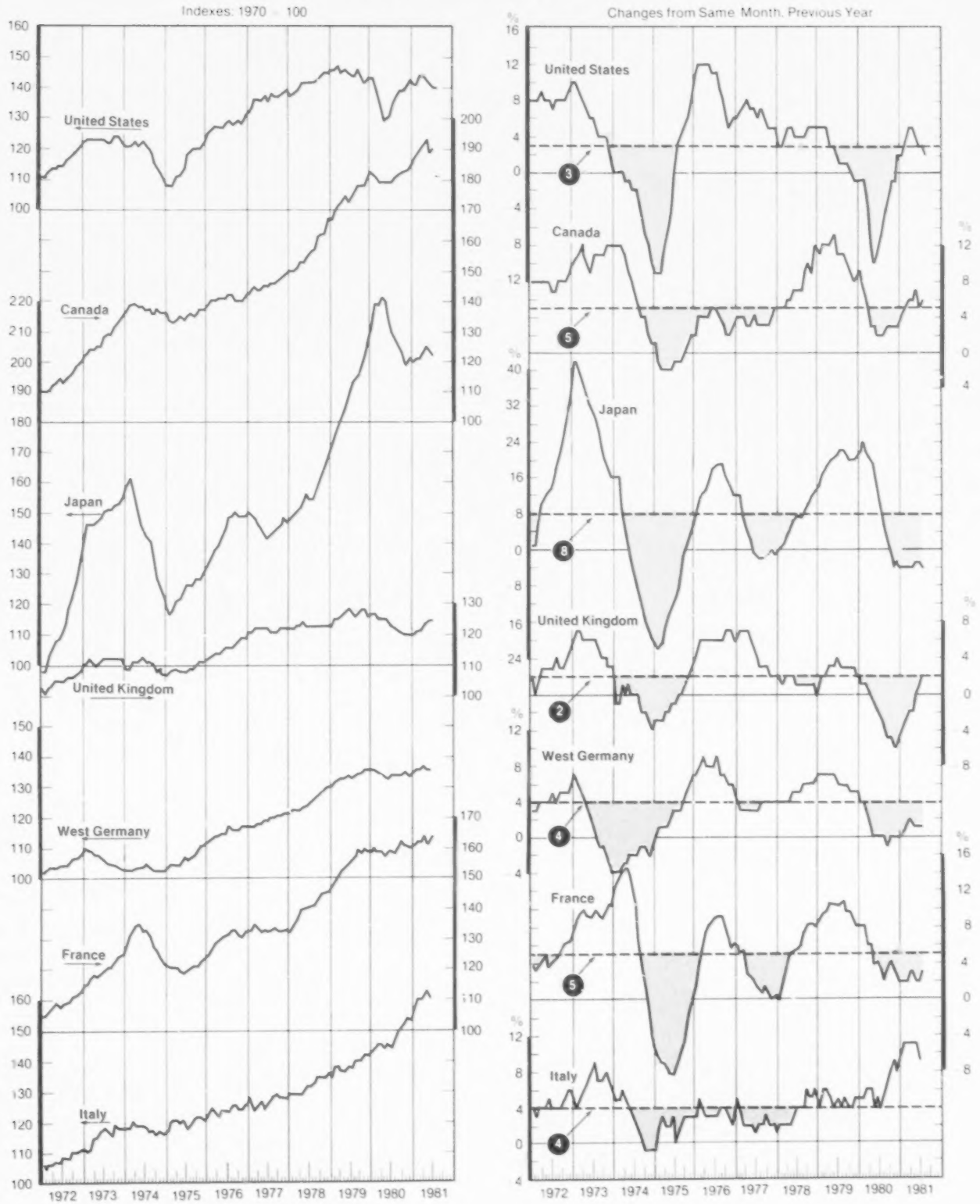
Leading Business Cycle Indexes



Note: For explanation, see back page.

HESITATION IN THE LEADING INDICATORS

During 1979-80 the United States led the industrial world into a sharp, though brief, recession. Is it about to do so again? The indexes in this report—based upon more than sixty economic indicators for seven countries, indicators that usually give early warning signals of recession and recovery—suggest that this question is worth raising, even though they don't yield a conclusive answer.

The weakening in the U.S. leading index that was noted in the preceding issue of this report has deepened. Between April and August the index dropped from 144 to 140 (1970 = 100), giving up about a fourth of the fifteen-point rise it staged from May 1980 to April 1981. Hence it is still well above its recession low, but now it is trending down, not up. And the decline is of sufficient magnitude to indicate that the U.S. economy is in either a slowdown or a recession.

One way to evaluate this development is to follow the three-stage system of recession signals described in these pages during the 1980 recession (August, 1980). This system uses both the leading index and the coincident index (the latter is compiled from measures of output and employment) and defines three signals that usually occur in sequence as a recession develops. The first two signals have identified slowdowns in the economy that often, though not always, have turned into recessions. The third signal has always occurred when a recession has just started. So far, the U.S. indexes have passed the first two signals, the first in June and the second in August. The third signal has not yet sounded, however.

This means that the U.S. business cycle is probably in a slowdown phase comparable to those in 1951-52, 1962-64 and 1966-67. In those episodes, growth continued, but at a slow pace and with occasional setbacks, until more vigorous expansion ensued in a year or so. Although recession cannot be ruled out as a possible outcome of the current slowdown, it is not decisively indicated, as it would be if the third signal had been passed. Most of the imbalances that lead to recession, such as heavy inventories, cost acceleration and overbuilding in housing, have not appeared in the U.S.

Leading Indexes, Seven Countries, 1980-81

		U.S.	Canada	Japan	U.K.	West Germany	France	Italy	7 Countries	6 Countries ex. U.S.	4 Countries, Europe
						Indexes, 1970 = 100					
Jan.	80	143	183	211	127	136	159	143	152	162	141
Feb.	80	143	182	219	127	136	160	144	152	164	142
Mar.	80	138	180	219	126	135	159	145	150	164	141
Apr.	80	132	179	221	125	134	159	145	146	164	141
May	80	129	179	220	125	133	157	144	144	163	140
June	80	130	179	214	125	133	159	145	145	162	140
July	80	134	179	211	123	133	158	144	146	161	140
Aug.	80	137	180	206	122	134	158	149	147	160	140
Sept.	80	139	182	204	121	134	160	151	148	160	141
Oct.	80	139	183	202	121	134	162	152	149	160	142
Nov.	80	141	184	198	120	135	161	154	149	160	142
Dec.	80	142	185	201	120	134	160	153	150	160	141
Jan.	81	141	187	200	121	135	161	157	150	161	143
Feb.	81	141	188	201	122	136	162	160	151	162	144
Mar.	81	144	190	201	122	136	162	160	152	162	144
Apr.	81	144	191	203	123	137	164	162	153	163	145
May	81	142	193	205	124	136	162	163	152	164	145
June	81	141	189	204	125	136	163	160	151	164	145
July	81	140	190	202	125	136	164		151	163	145
Aug.	81	140									
						Percent Change from Preceding Year					
Jan.	80	−1	9	22	2	4	8	5	4	10	5
Feb.	80	−1	7	24	1	4	8	5	5	10	5
Mar.	80	−4	6	22	1	3	6	6	2	9	4
Apr.	80	−8	4	21	0	1	6	6	0	8	3
May	80	−10	3	19	−1	0	4	4	−2	7	2
June	80	−9	3	13	−2	0	4	5	−2	5	2
July	80	−7	2	10	−3	0	3	4	−2	4	1
Aug.	80	−4	2	5	−4	0	2	6	−1	2	1
Sept.	80	−2	2	2	−5	−1	3	7	0	2	1
Oct.	80	−1	3	0	−5	0	4	8	0	1	1
Nov.	80	1	3	−4	−6	0	3	9	0	0	1
Dec.	80	2	3	−3	−5	0	2	8	1	0	1
Jan.	81	2	4	−4	−4	0	2	10	1	0	2
Feb.	81	3	5	−4	−3	0	2	11	2	0	2
Mar.	81	5	6	−4	−2	1	2	11	3	1	2
Apr.	81	5	6	−4	−2	2	3	11	3	1	3
May	81	4	7	−3	0	1	2	11	2	2	3
June	81	3	4	−3	1	1	2	9	2	1	3
July	81	3	5	−4	2	1	3		2	1	3
Aug.	81	2									
						Ten-Year Annual Growth Rate, Percent					
1966-76		3	5	8	2	4	5	4	4	5	4

economy, except for the imbalance between the high level of interest rates and the current rate of inflation. Recent declines in short-term interest rates in U.S. markets suggest that this imbalance may be undergoing correction.

In each of the other six major industrial countries, the leading indexes have recovered from their low levels or low rates of growth in 1980. The recoveries generally started a few months later than in the U.S., and persisted longer. But the recent data show that hesitancies have now developed in the indexes. In Canada, West Germany, France and Italy the latest growth rate is down from where it was three months ago (see summary table on page 1). In Japan the growth rate has become a smaller negative figure, a modest improvement at best. In the United Kingdom, however, the latest growth rate, 5% in July, represents the best showing since June 1979. This is the strongest evidence yet that Britain's severe slump may be coming to an end.

The hesitancies in the leading indexes that have developed outside the U.S. suggest that the recoveries may have stalled, but not necessarily ended. For the four European countries taken together, the leading index has remained flat for the last four months, April through July. When Canada and Japan are included, the six-country leading index also showed little change since April, and a growth rate through July of 2%. Overall, it is not an invigorating picture, but not one of gloom and doom either.

(Note: The leading index for West Germany has been revised with a view to improving its performance. For particulars, write to the Rutgers Center, address below.)

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This bimonthly Conference Board report on the business outlook in seven major industrial countries is based on an analytical system of leading, coincident and lagging indicators that has become widely used in the United States to appraise the state of the business cycle. Similar systems have been developed in a few other countries, but because of differences in content or methodology the results are not closely comparable. In an effort to establish greater comparability and broaden the coverage, Geoffrey H. Moore and Philip A. Klein developed a new set of indicators for seven countries, including series not published in official sources. These statistics are being kept up to date, analyzed, and circulated to subscribers by the Center for International Business Cycle Research at Rutgers University.

The leading indexes shown here are composites based on a total of some 65 indicators that usually anticipate changes in national output or employment by several months. Among the indicators included for each country, whenever available, are new orders, construction contracts, corporate profits, stock prices, and changes in consumer debt. (The leading index for the U.S. used here differs somewhat in composition from the index reported monthly by the U.S. Department of Commerce.)

Experience has shown these indexes to have a persistent tendency to lead output and employment, for reasons deeply rooted in the workings of the business economy. In every country, when the leading index begins to rise faster, it is a fairly safe rule that industrial production will soon begin to rise faster too—typically after 3 or 4 months. When the leading index begins to rise more slowly or to decline, industrial production is likely to follow suit shortly thereafter. (For details, see "What the Leading Indicators Indicate," *Across The Board*, April 1980.) Considerable variation in the length of lead is to be expected, however, so that constant monitoring is a prerequisite for effective use of the system. Among the uses that have been demonstrated are tracking a recession or recovery and identifying the factors involved, anticipating changes in foreign trade flows, and providing early warning of new inflationary trends. To facilitate analysis the indexes are adjusted so their long-run growth rates are equal to those in real GNP in the country concerned during 1966-76. (These growth rates are shown at the bottom of the table and by horizontal lines on the right panel of the charts.)

For More Information

To find out more about this indicator system and its uses, and about the availability of all current data monthly for each country, please address inquiries to

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A Bimonthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

DECEMBER 1981

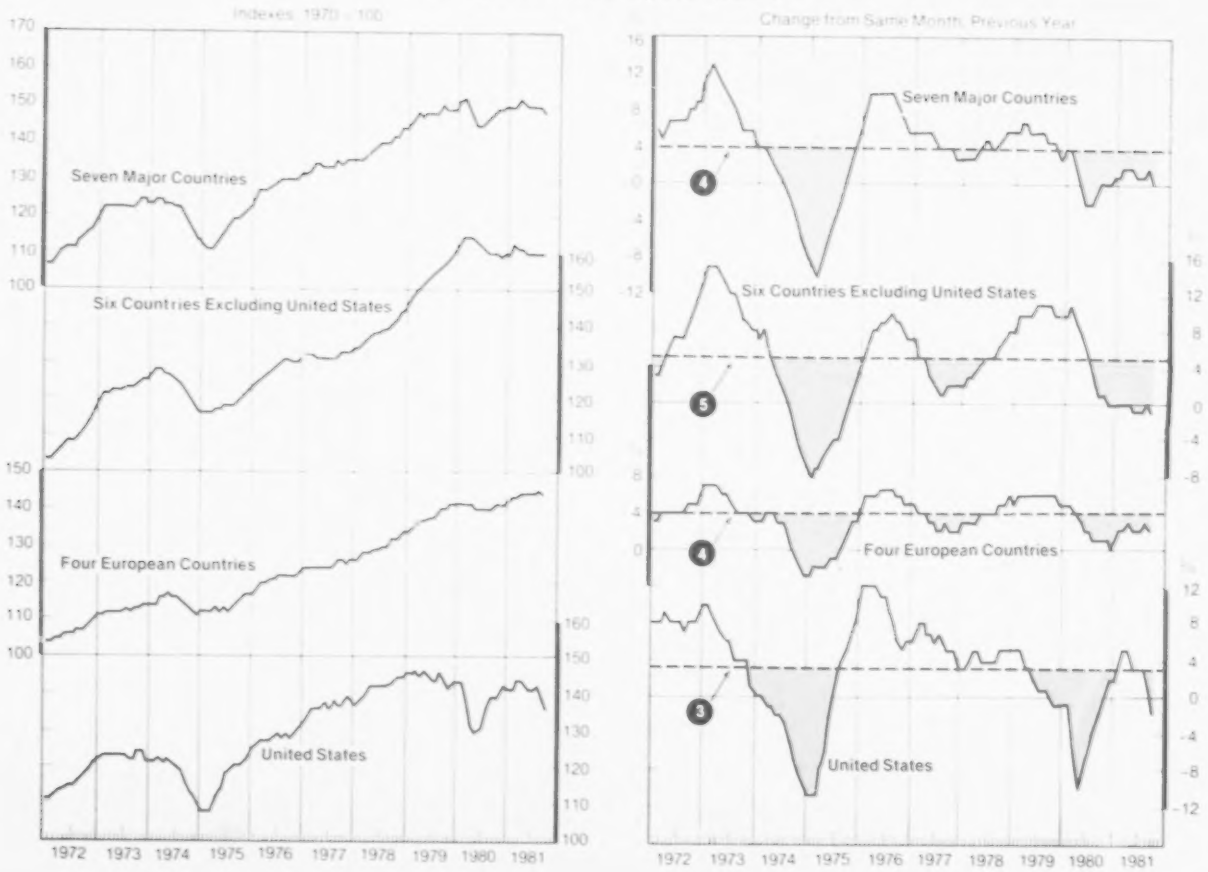
STATUS OF THE LEADING INDEXES

Summary: Weakness prevails in the leading indexes for the United States, Canada, Japan, West Germany and Italy, but France and the United Kingdom have moved to higher ground.

	Ten-year Growth Rates	Recent rates of change* 6 mo. ago	3 mo. ago	Latest		Current reading
		(annual rates, percent)				
United States	3	9	1	— 7	(Oct.)	Contraction underway.
Canada	5	8	4	— 2	(Sept.)	Expansion stopped.
Japan	8	—10	—10	— 4	(Sept.)	Weak recovery underway.
United Kingdom	2	0	4	4	(Sept.)	Recovery underway.
West Germany	4	0	— 1	0	(Sept.)	Recovery levelling off.
France	5	6	4	6	(Sept.)	Expansion continuing.
Italy	4	11	12	2	(Aug.)	Expansion interrupted.
6 countries ex. U.S.	5	0	— 1	0	(Sept.)	Stagnation prevails.
7 countries	4	5	1	— 2	(Sept.)	Modest decline underway.

*Annual rate based on ratio of current month's index to average index over the preceding 12 months.

Leading Business Cycle Indexes


Indexes, 1970 = 100
Seven Major Countries
Six Countries Excluding United States
Four European Countries
United States
Change from Same Month, Previous Year
Seven Major Countries
Six Countries Excluding United States
Four European Countries
United States
1972 1973 1974 1975 1976 1977 1978 1979 1980 1981

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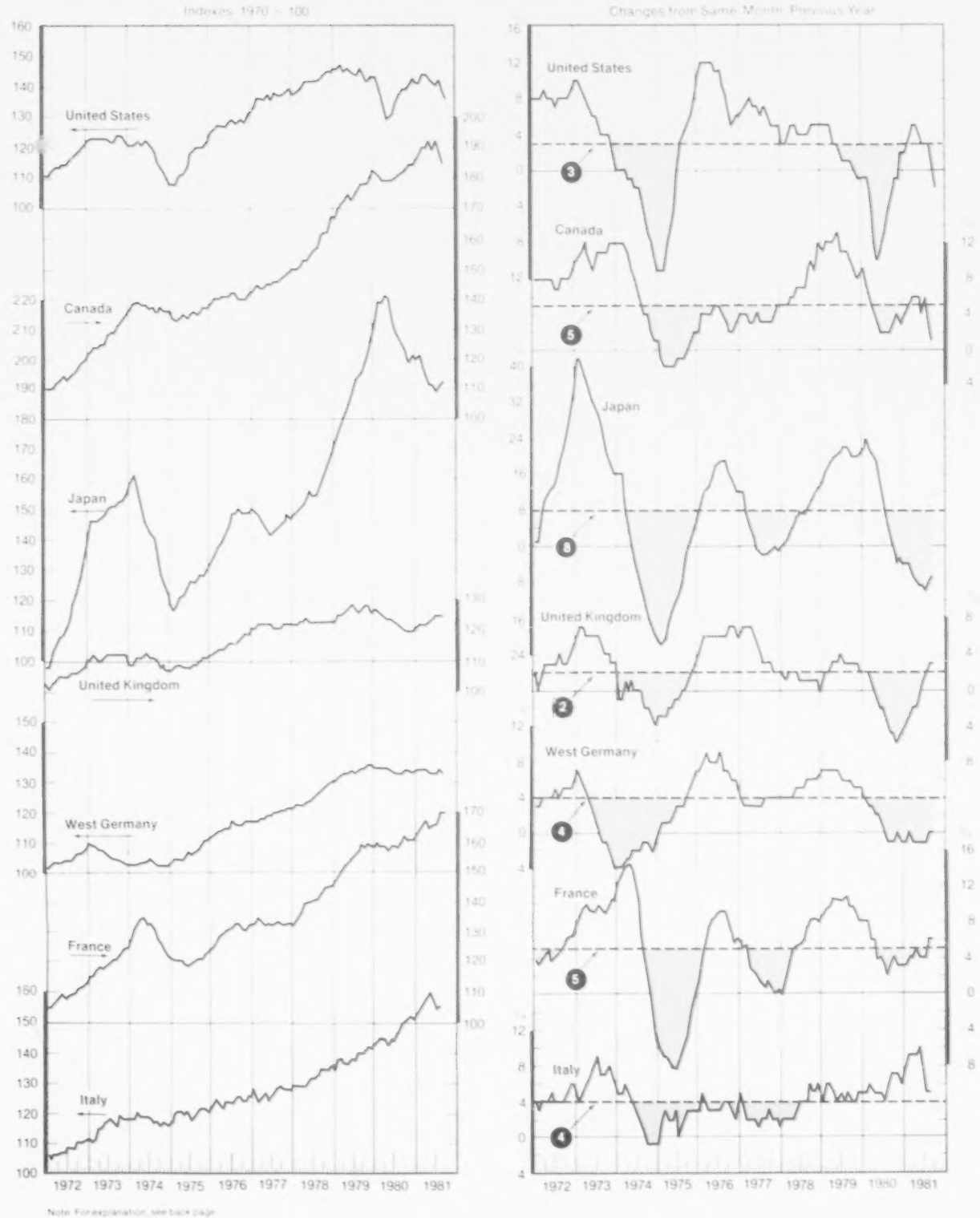
Leading Business Cycle Indexes



Note: For explanation, see back page.

ECONOMIC WEAKNESS SLOWS INFLATION

The economic outlook for the major industrialized countries presents a very mixed picture. Listed in order according to the recent strength or weakness of their leading indexes, France and the United Kingdom are at the top, followed by Italy, West Germany and Canada, with Japan and the United States showing the most erosion.

Taken together, the composite index for all seven countries, reveals that a modest decline has been under way since April. Excluding the U.S., the composite leading index for the other six countries has been marking time for more than a year, first moving up a little then down a little. The recent U.S. decline is now the sharpest among the seven countries, and the October figures were sufficiently negative to set off our third and final signal of recession. The first was passed in June and the second in August (see the October *Scoreboard*).

Recession slows inflation. The international evidence

Leading Indexes, Seven Countries, 1980-81

		U.S.	Canada	Japan	U.K.	West Germany	France	Italy	7 Countries	6 Countries ex. U.S.	4 Countries Europe
						Indexes, 1970 = 100					
Jan.	80	143	183	211	127	135	159	143	151	162	141
Feb.	80	143	182	219	127	135	160	144	152	164	141
Mar.	80	138	180	219	126	135	159	145	150	164	141
Apr.	80	132	179	221	125	135	159	145	147	164	141
May	80	129	179	220	124	135	157	144	145	163	140
June	80	130	179	214	124	134	159	145	145	162	140
July	80	134	180	211	123	133	158	145	146	161	140
Aug.	80	137	180	206	122	133	158	146	147	160	140
Sept.	80	139	182	204	121	133	160	150	148	160	140
Oct.	80	139	183	202	120	134	162	151	149	160	141
Nov.	80	141	185	198	120	134	161	152	149	159	141
Dec.	80	142	185	201	120	133	161	151	150	160	141
Jan.	81	141	187	200	121	134	163	154	150	160	142
Feb.	81	141	188	201	122	134	164	156	150	162	143
Mar.	81	144	190	197	122	134	165	157	152	161	143
Apr.	81	144	190	194	122	134	167	158	151	161	144
May	81	142	192	191	123	133	165	160	150	160	144
June	81	141	189	191	124	133	166	157	150	160	144
July	81	141	192	189	125	133	166	155	150	160	144
Aug.	81	142	188	191	125	134	170	156	150	160	145
Sept.	81	138	185	192	125	133	170	156	148	160	144
Oct.	81	136									
						Percent Change from Preceding Year					
Jan.	80	−1	9	22	2	4	8	5	4	10	5
Feb.	80	−1	7	24	2	3	8	5	4	10	5
Mar.	80	−4	5	22	1	3	6	6	2	9	4
Apr.	80	−8	4	21	−1	2	6	5	0	8	3
May	80	−10	3	19	−2	2	4	5	−2	7	2
June	80	−9	2	13	−2	1	4	5	−2	5	2
July	80	−7	2	10	−3	0	3	4	−2	4	1
Aug.	80	−4	2	5	−4	−1	2	6	−1	2	1
Sept.	80	−2	2	2	−5	−1	3	7	0	1	1
Oct.	80	−1	3	0	−5	−1	4	7	0	1	1
Nov.	80	1	4	−4	−6	0	3	7	0	0	1
Dec.	80	2	3	−3	−5	−1	3	6	1	0	0
Jan.	81	2	4	−4	−4	−1	3	8	1	0	1
Feb.	81	3	5	−4	−3	0	4	9	2	0	2
Mar.	81	5	6	−7	−2	−1	4	9	2	0	2
Apr.	81	5	6	−8	−2	−1	5	9	2	0	3
May	81	4	6	−9	0	−1	4	10	1	−1	2
June	81	3	4	−9	1	−1	4	7	1	−1	2
July	81	3	6	−10	2	−1	4	5	1	−1	2
Aug.	81	3	3	−8	3	0	6	5	2	0	3
Sept.	81	1	1	−7	3	0	6		0	−1	2
Oct.	81	−2									
						Ten-Year Annual Growth Rate, Percent					
1966-76		3	5	8	2	4	5	4	4	5	4

for this proposition has been developed in several earlier studies and the 1980 recession has now provided another example. During 1980 and 1981 the rate of inflation declined in most industrial countries. As the accompanying chart illustrates, a composite index of consumer prices in twenty-three industrial countries other than the United States shows a slowing of the inflation rate from nearly 14% at the beginning of 1980 to 10% as of October 1981. This almost parallels the decline in the comparable U.S. inflation rate, from about 13% in early 1980 to 9% as of October 1981. (The U.S. index used here is modified by using a rental basis for measuring the cost of home ownership, since that makes it more nearly comparable with the methods used in other countries.)

The 1980 recession was international in scope and, except for North America, recovery from the downslide was limited. Thus, recessionary conditions still persist in many countries. With a new recession under way in the U.S., and varying degrees of weakness recorded in most of the leading indexes abroad, a further abatement of inflation would not be unexpected.

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A Bimonthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

R4105-6 3/82

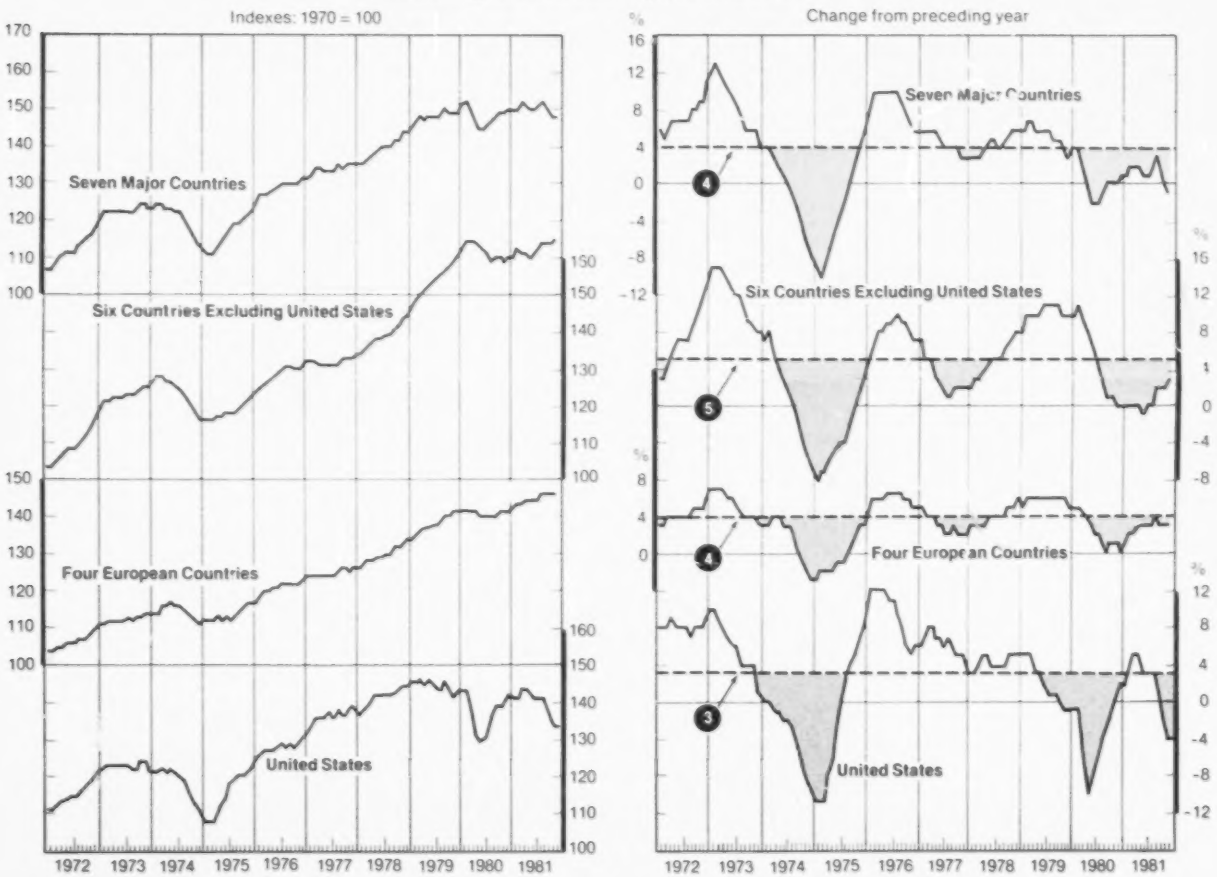
FEBRUARY 1982 **STATUS OF THE LEADING INDEXES**

Summary: Recovery is developing in Japan, the United Kingdom and France. No trend is seen in West Germany and Italy. Weakness prevails in Canada and the United States.

	Ten-year Growth Rates	*Recent rates of change**				*Current reading*
		6 mo. ago	*3 mo. ago*	*Latest*		
		(annual rates, percent)				
United States	3	3	— 3	— 8	(Dec.)	Contraction underway
Canada	5	8	1	0	(Nov.)	Contraction developing.
Japan	8	—11	5	8	(Nov.)	Recovery continuing.
United Kingdom	2	2	10	6	(Nov.)	Recovery continuing.
West Germany	4	— 2	0	— 1	(Nov.)	Stagnation prevails.
France	5	5	6	5	(Dec.)	Expansion continuing.
Italy	4	10	6	3	(Sept.)	Expansion interrupted.
6 countries ex. U.S.	5	0	5	4	(Nov.)	Modest recovery underway.
7 countries	4	2	2	— 3	(Nov.)	U.S. weakness prevails.

*Annual rate based on ratio of current month's index to average index over the preceding 12 months.

Leading Business Cycle Indexes



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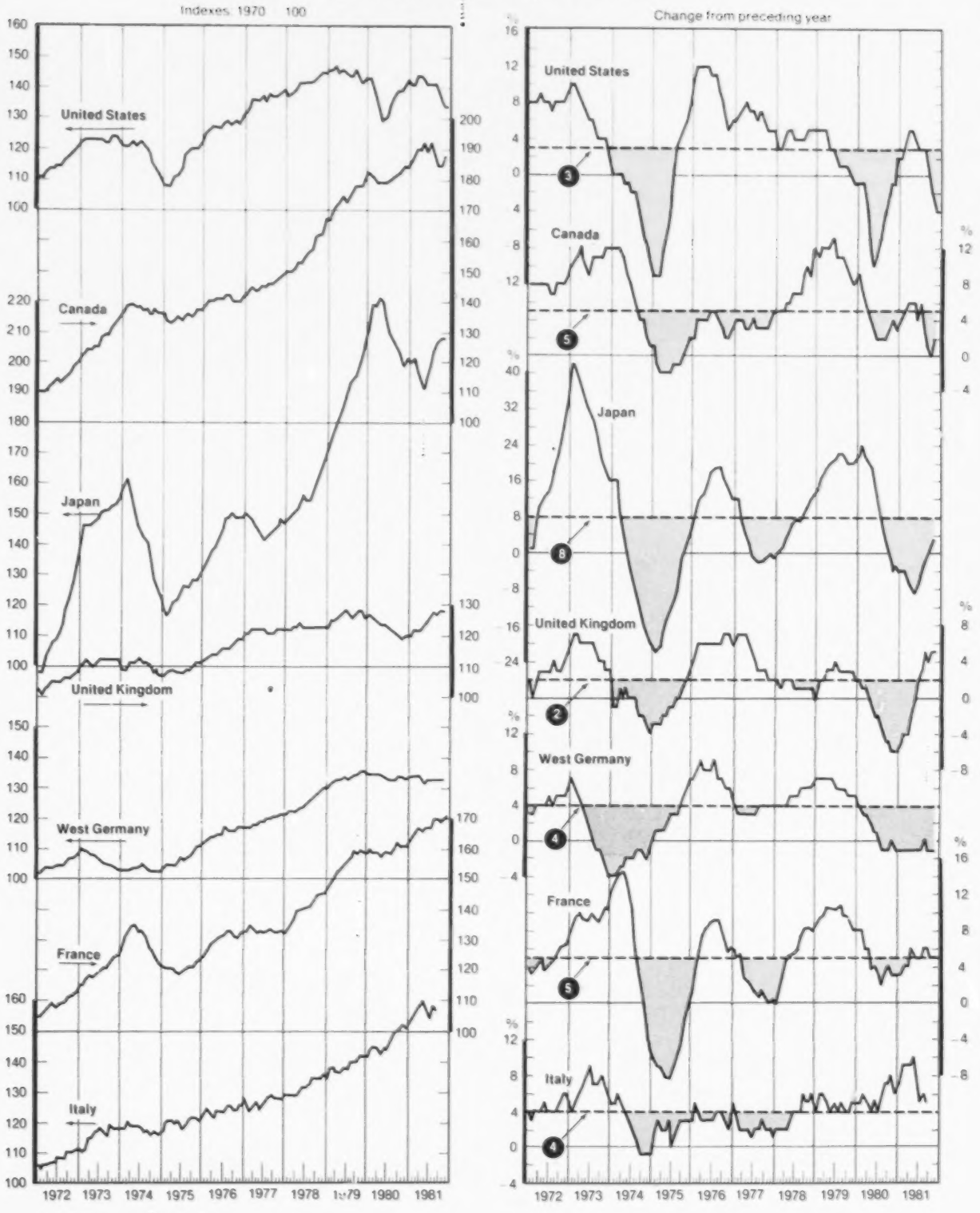
Leading Business Cycle Indexes



Note: For explanation, see back page.

Mixed Cyclical Readings

Signs pointing to an end of recession in the United Kingdom, France and Japan have become more visible in recent months. The leading index for France, after a small dip in 1980, has continued to climb, with a growth rate of 5% at annual rate in December. For the U.K., the leading index has just about recovered all the ground lost since 1979, and registered a 6% growth rate in November. Japan's leading index has reached the halfway mark on its climb back to the 1980 peak, and turned in a growth rate of 8% in November.

The situation is less favorable but by no means bleak in West Germany and Italy, where the leading indexes have been fluctuating around a more or less horizontal level. The U.S. and Canada have had the sharpest downturns, although the leading index for Canada recovered some ground in November. The U.S. index steadied in December but is still registering a sharply negative growth rate, minus 8%.

The Inventory Factor

One factor underlying the differences among countries in the recent trends of their leading indicators is their inventory situation. Business surveys for the European Community, reported monthly by the EEC in *European Economy,* show the opinion of businessmen

Leading Indexes, Seven Countries, 1980-81

		U.S.	Canada	Japan	U.K.	West Germany	France	Italy	7 Countries	6 Countries ex. U.S.	4 Countries, Europe
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Aug.	81	141	188	204	128	133	170	158	152	164	146
Sept.	81	139	185	207	127	133	170	157	150	164	146
Oct.	81	135	185	208	128	133	169		148	164	146
Nov.	81	134	188	208	128	133	170		148	165	146
Dec.	81	134					171				
						Percent Change from Preceding Year					
Jan.	80	−1	9	22	2	4	8	5	4	10	5
Feb.	80	−1	7	24	1	3	8	5	4	10	4
Mar.	80	−4	5	22	1	3	6	6	2	9	4
Apr.	80	−6	4	21	−1	2	6	5	0	8	3
May	80	−10	3	19	−2	1	4	4	−2	7	2
June	80	−9	2	13	−2	1	4	5	−2	5	2
July	80	−7	2	10	−3	0	3	4	−2	4	1
Aug.	80	−4	2	5	−4	−1	2	6	−1	2	0
Sept.	80	−2	2	2	−5	−1	3	7	0	1	1
Oct.	80	−1	3	0	−5	−1	4	7	0	1	1
Nov.	80	1	4	−4	−6	0	3	8	0	0	1
Dec.	80	2	3	−3	−6	−1	3	6	1	0	0
Jan.	81	2	4	−4	−5	−1	3	7	1	0	1
Feb.	81	3	5	−4	−3	−1	4	9	2	0	2
Mar.	81	5	6	−7	−3	−1	4	9	2	0	2
Apr.	81	5	6	−8	−2	−1	6	9	2	0	3
May	81	4	6	−9	0	−1	5	10	1	−1	3
June	81	3	4	−7	2	−1	5	7	1	0	3
July	81	3	6	−5	3	−1	5	5	2	0	3
Aug.	81	3	3	−2	5	0	6	6	3	2	4
Sept.	81	1	1	0	4	−1	6	5	2	2	3
Oct.	81	−2	0	2	5	−1	5		0	2	3
Nov.	81	−4	2	3	5	−1	5		−1	3	3
Dec.	81	−4					5				
						Ten-Year Annual Growth Rate, Percent					
1968-76		3	5	8	2	4	5	4	4	5	4

about finished goods stocks in manufacturing, i.e., whether they are above or below normal, presumably in relation to sales. In both the U.K. and France, the December surveys indicate that the inventory position improved substantially during 1981, moving back toward normal. In Italy and Germany, on the other hand, there has been virtually no change since the middle of 1981. In Japan the ratio of finished goods inventories to shipments, after climbing during 1980 and early 1981, declined fairly sharply through November.

In the U.S. and Canada, figures on the ratio of inventories to sales reflect a sharp accumulation during the second half of 1981. This clearly depressed new orders and production. In the U.S., the ratio of constant dollar inventories to sales for manufacturing and trade as a whole broke an all-time record in November, at nearly 1.8 times sales. Inventories began to climb after March 1981 and rose nearly 3% in real terms during the next eight months. Meanwhile, the volume of sales, after allowing for inflation, dropped about 5%. Since November, there is evidence that the process of reducing the burdensome level of inventories has begun. The January 1982 survey by the National Association of Purchasing Management, Inc. shows finished goods inventories starting to decline, with more companies reporting declines than increases.

In general, the European countries and Japan have made greater progress in working off excess inventories than have the United States and Canada. This is an importnt element behind the more optimistic stance of their leading indicators.

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

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The leading indexes shown here are composites based on a total of some 65 indicators that usually anticipate changes in national output or employment by several months. Among the indicators included for each country, whenever available, are new orders, construction contracts, corporate profits, stock prices, and changes in consumer debt. (The leading index for the U.S. used here differs somewhat in composition from the index reported monthly by the U.S. Department of Commerce.)

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A Bimonthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

APRIL 1982

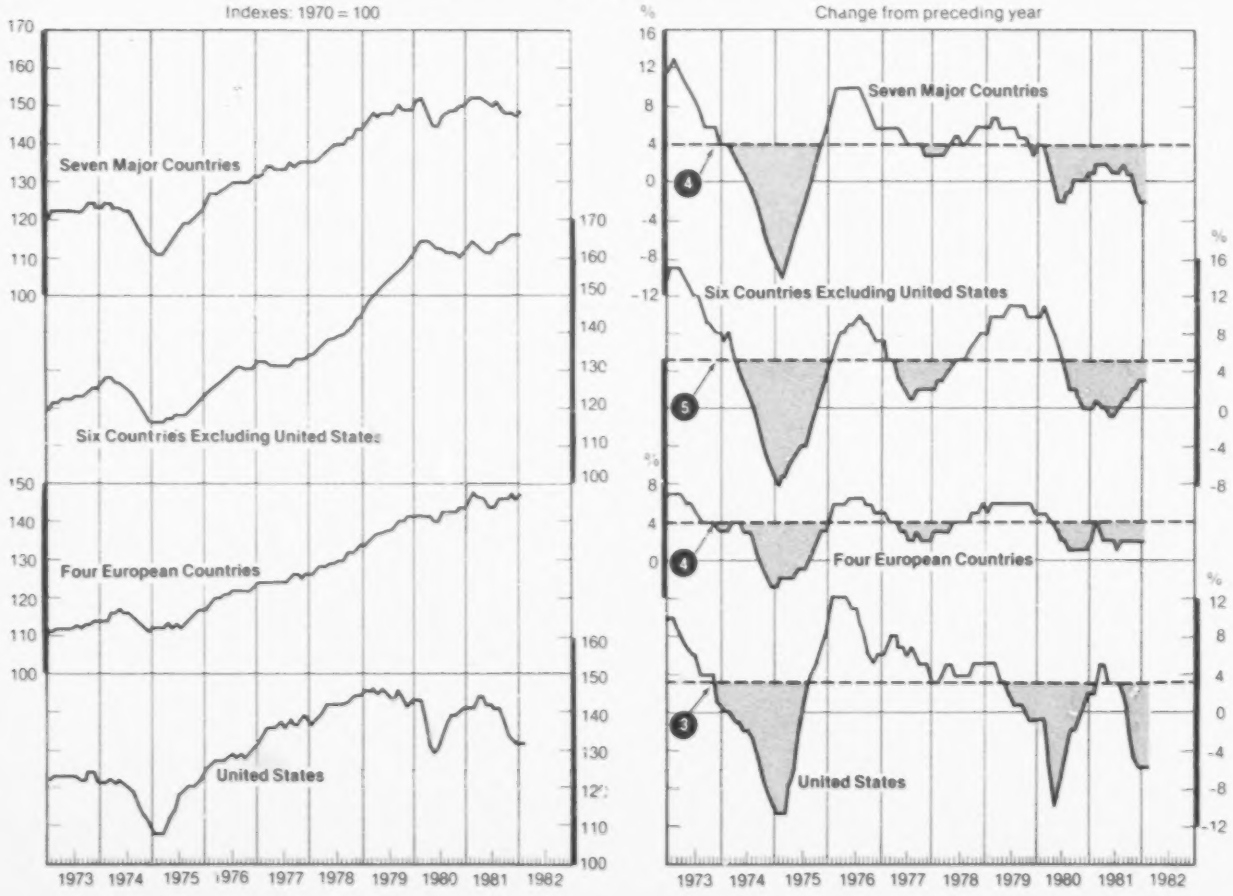
STATUS OF THE LEADING INDEXES

Summary: Weakness in the leading indicators is most pronounced in North America, but elsewhere the picture shows more pluses than minuses. Japan, the United Kingdom and France are in the vanguard.

	Ten-year Growth Rates 1966-76	Recent rates of change* 6 mo. ago	3 mo. ago	Latest		Current reading
		(annual rates, percent)				
United States	3	0	—10	— 8	(Feb.)	Contraction slowing.
Canada	5	5	— 6	— 7	(Jan.)	Contraction continuing.
Japan	8	— 1	10	10	(Jan.)	Recovery continuing.
United Kingdom	2	8	8	4	(Jan.)	Recovery holding.
West Germany	4	— 1	0	0	(Dec.)	Stagnation prevails.
France	5	— 2	0	3	(Jan.)	Expansion continuing.
Italy	4	3	1	— 2	(Dec.)	Expansion stopped.
6 countries ex. U.S.	5	1	3	3	(Jan.)	Modest recovery continuing.
7 countries	4	1	— 3	— 3	(Jan.)	U.S. recession prevails.

*Annual rate based on ratio of current month's index to average index over the preceding 12 months.

Leading Business Cycle Indexes


Indexes: 1970 = 100
Change from preceding year
Seven Major Countries
Six Countries Excluding United States
Four European Countries
United States
1973 1974 1975 1976 1977 1978 1979 1980 1981 1982

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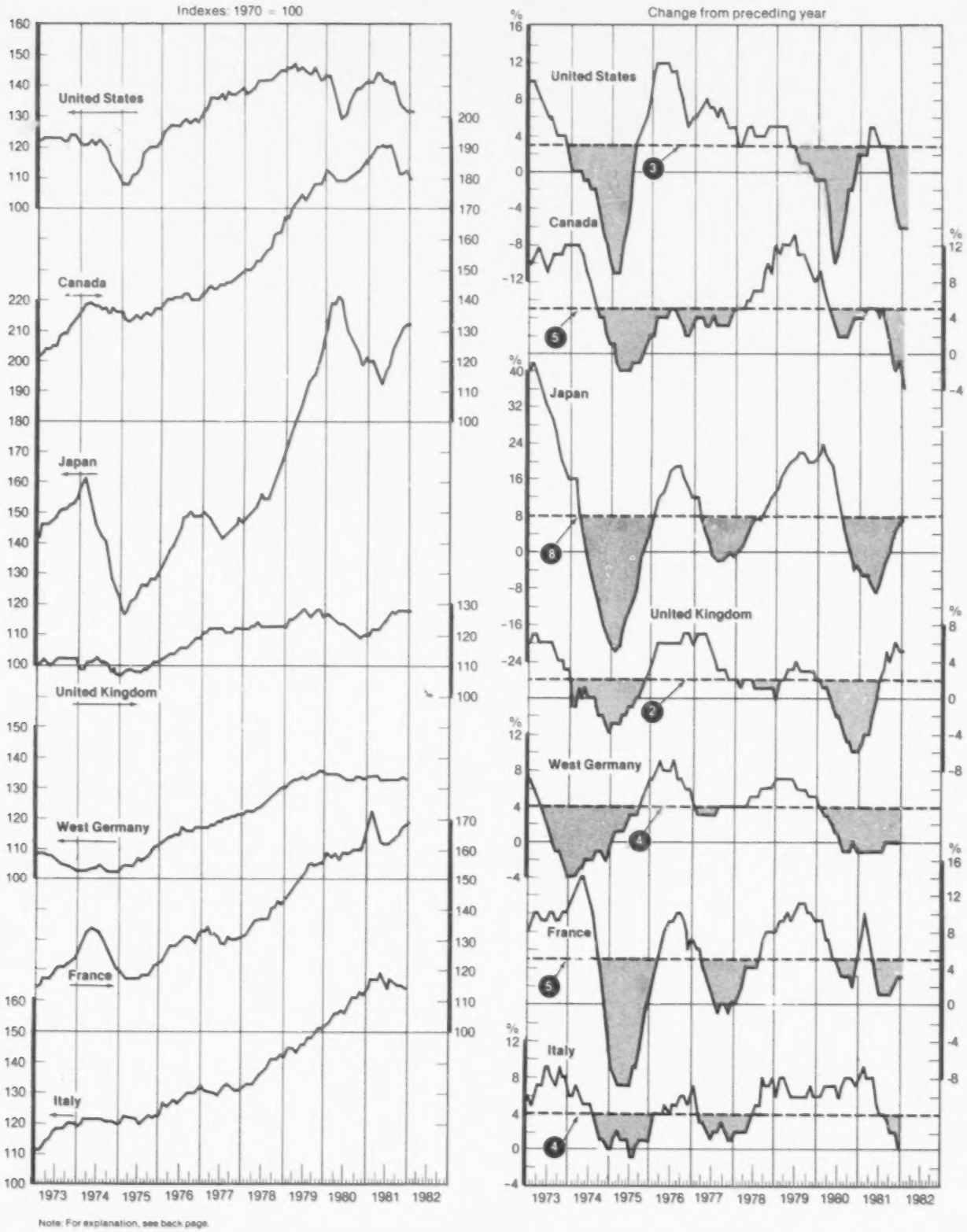
Leading Business Cycle Indexes



Note: For explanation, see back page.

Somber Unemployment Picture

In judging whether a recession has come to an end, many people look for a decline in unemployment. Since recession increases unemployment, recovery should reduce unemployment. This is indeed what usually happens, but not immediately. Other things happen first. In every one of the major industrial countries unemployment has, more often then not, turned down a few months *after* the recovery in economic activity got started. There are a couple of reasons for this lag. First, when business is slack, enterprises can begin to expand production by increasing working hours or by keeping their employees busier, without increasing the number employed very much if at all. Second, even when employment starts up, if it does not increase faster than the natural growth in the labor force, unemployment will continue to rise—and this is what usually happens when an economic recovery gets underway. A continuing rise in unemployment in such circumstances is no cause for alarm, provided other developments that presage recovery are taking place.

Consequently, although unemployment in most major industrial countries was rising rather than declining at the end of 1981 and in the early months of 1982 (see table on page 4) this does not necessarily mean that recession was continuing. In some countries unemployment may simply be reflecting its usual lag behind the favorable factors that signal recovery. Many of these factors are summed up in the leading indexes. In contrast with unemployment, they usually start improving *before* a recovery in output begins, and hence well before any noticeable decline in unemployment. Historically, in every one of the seven countries an

Leading Indexes, Seven Countries, 1980-81

		U.S.	Canada	Japan	U.K.	West Germany	France	Italy	7 Countries	6 Countries ex. U.S.	4 Countries, Europe
						Indexes, 1970 = 100					
July	80	134	180	210	123	133	159	156	147	162	142
Aug.	80	137	180	205	122	133	158	159	148	161	142
Sept.	80	139	182	203	121	133	160	161	149	161	142
Oct.	80	139	183	202	120	134	160	161	149	161	142
Nov.	80	140	185	199	119	134	160	163	150	160	143
Dec.	80	141	186	201	120	133	163	162	150	161	143
Jan.	81	141	187	200	120	134	168	164	151	162	145
Feb.	81	141	188	200	122	134	173	167	152	164	147
Mar.	81	144	190	196	122	134	170	167	152	163	146
Apr.	81	144	190	194	122	134	167	167	152	162	146
May.	81	142	191	192	123	133	162	169	151	161	145
June	81	142	190	196	125	133	162	166	150	161	144
July	81	141	191	198	127	133	162	164	150	162	144
Aug.	81	141	188	204	128	133	163	166	151	164	146
Sept.	81	138	184	207	127	133	164	166	150	164	146
Oct.	81	134	182	209	128	133	165	165	148	165	146
Nov.	81	133	182	211	128	134	167	165	148	166	147
Dec.	81	132	183	212	128	133	168	164	147	166	146
Jan.	82	132	180	212	128		169		148	166	147
Feb.	82	132									
						Percent Change from Preceding Year					
July	80	—6	2	10	—3	0	4	6	—1	4	2
Aug.	80	—4	1	5	—4	—1	3	7	—1	2	1
Sept.	80	—2	2	2	—5	—1	3	8	0	2	1
Oct.	80	—2	3	0	—5	—1	3	8	0	1	1
Nov.	80	0	4	—3	—6	0	2	8	0	0	1
Dec.	80	2	4	—3	—6	—1	4	6	1	0	1
Jan.	81	2	4	—5	—5	—1	7	8	1	0	2
Feb.	81	2	5	—5	—3	—1	10	9	2	1	4
Mar.	81	5	5	—7	—3	—1	8	8	2	0	3
Apr.	81	5	5	—8	—2	—1	6	8	2	0	2
May	81	4	5	—9	0	—1	2	8	1	—1	2
June	81	3	4	—7	2	—1	2	5	1	—1	2
July	81	3	5	—5	3	—1	1	4	1	0	1
Aug.	81	3	3	—2	5	0	1	4	2	1	2
Sept.	81	1	1	0	4	0	1	3	1	1	2
Oct.	81	—3	—1	3	5	0	1	2	—1	2	2
Nov.	81	—5	—2	5	6	0	2	2	—1	2	2
Dec.	81	—6	—1	6	5	0	3	0	—2	3	2
Jan.	82	—6	—4	7	5		3		—2	3	2
Feb.	82	—6									
						Ten-Year Annual Growth Rate, Percent					
1966-76		3	5	8	2	4	5	4	4	5	4

upturn in the leading index has usually anticipated the downturn in unemployment by several months, with an overall average lead of five months. The average lead time for each country is as follows:

U.S., 1949-75	4 months
Canada, 1951-77	6 months
Japan, 1955-75	6 months
U.K., 1952-75	8 months
W. Germany, 1954-75	3 months
France, 1959-75	2 months
Italy, 1959-77	9 months
7 Countries, 1949-77	5 months

Leaders Mixed

Although the unemployment situation in most countries remains unfavorable according to recent statistics, conditions depicted by the leading indexes are more mixed (see page 1 summary table). A recovery of sorts has occurred in the United Kingdom, France and Japan. The index for West Germany can best be described as moving sideways, neither up nor down. However, weakness continues to pervade the leaders in the United States, Canada and Italy, although the U.S. index has levelled off since December.

RECENT UNEMPLOYMENT TRENDS

		6 Months Earlier	*3 Months Earlier*	*Latest Month*	
United States	%	7.6	8.8	9.0	Mar. 82
Canada	%	7.4	8.3	8.3	Jan. 82
Japan	%	2.3	2.2	2.2	Dec. 81
United Kingdom	mil.	2.63	2.76	2.84	Feb. 82
West Germany	%	6.1	6.7	7.2	Mar. 82
France	mil.	1.83	1.90	1.96	Feb. 82
Italy	%	8.7	8.3	9.0	Oct. 81

Note: The unemployment rates shown are not necessarily comparable from one country to another because of differences in definition and methods of measurement. All figures are adjusted for seasonal variations.

In short, while the unemployment picture in the seven countries is somber, other signals are not so uniformly bleak. In particular, the leading indicators are showing some signs of life. The case appears to be one of incipient recovery in the world economy, not yet in full bloom but not wholly dormant. But don't look for improvement in unemployment until the leading indicators blossom.

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A Bimonthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

JUNE 1982

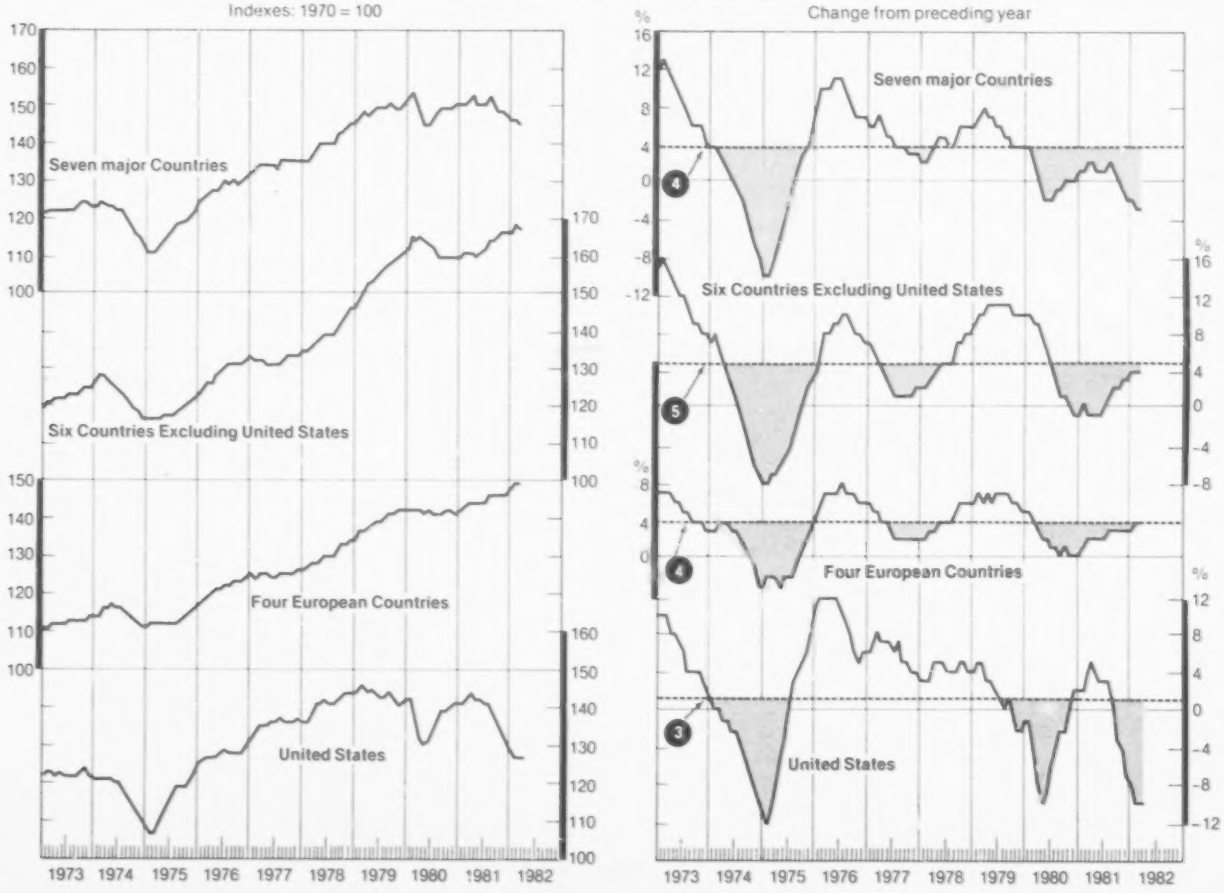
STATUS OF THE LEADING INDEXES

Summary: Weakness in the leading indicators still prevails in North America, but signs of recovery are appearing in Europe and Japan.

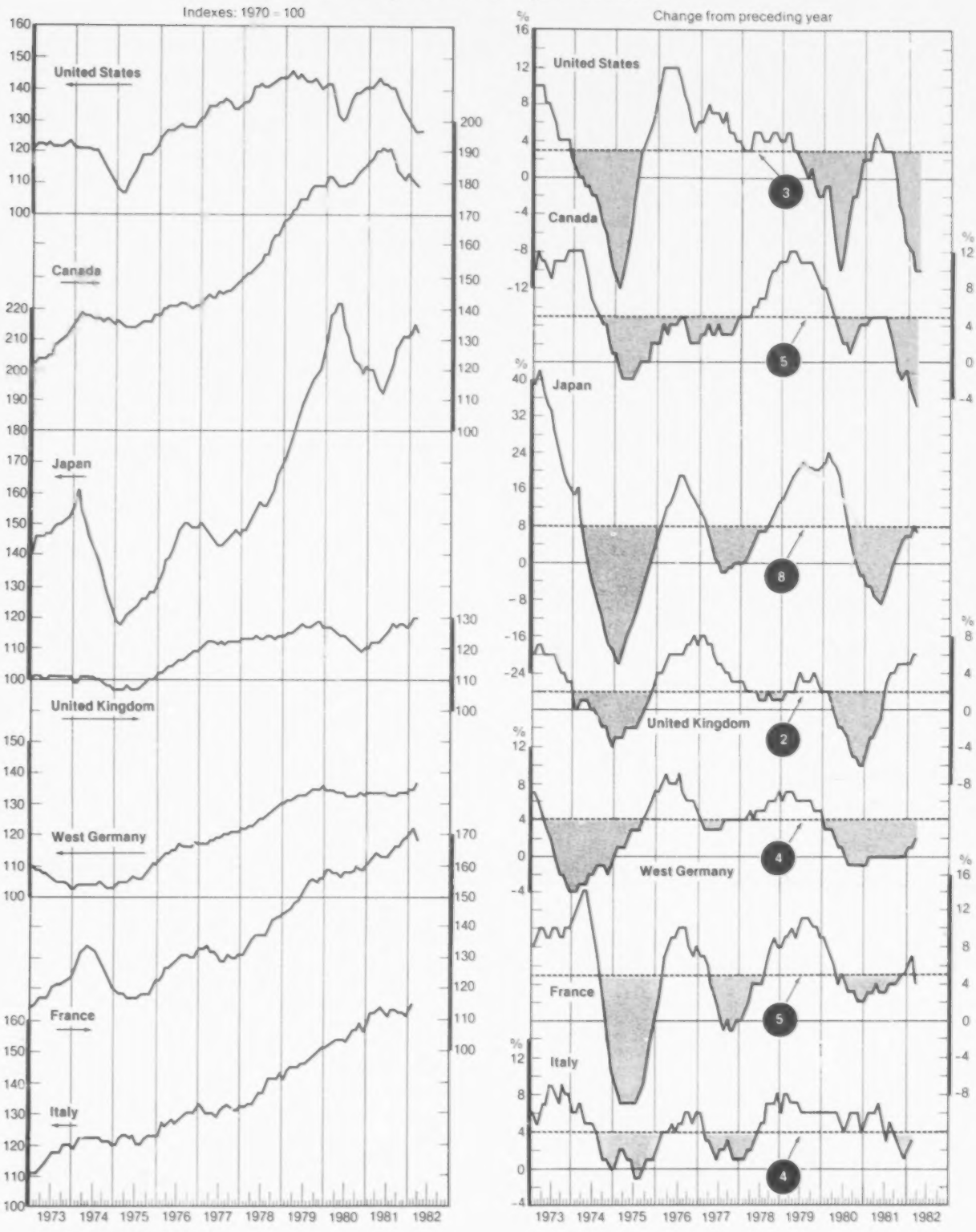
	Ten-year Growth Rates	Recent rates of change* 6 mo. ago	3 mo. ago	Latest		Current reading
		(annual rates, percent)				
United States	3	−9	−13	−11	(Apr.)	Contraction slowing.
Canada	5	−3	− 3	− 7	(Mar.)	Contraction continuing.
Japan	8	8	10	8	(Mar.)	Recovery continuing.
United Kingdom	2	7	4	6	(Mar.)	Recovery continuing.
West Germany	4	0	0	4	(Mar.)	Recovery beginning.
France	5	5	6	3	(Mar.)	Expansion continuing.
Italy	4	4	1	3	(Feb.)	Expansion resuming.
6 countries ex. U.S.	5	4	4	4	(Mar.)	Modest recovery continuing.
7 countries	4	0	− 4	− 5	(Mar.)	U.S. recession prevails.

*Annual rate based on ratio of current month's index to average index over the preceding 12 months.

Leading Business Cycle Indexes


Indexes: 1970 = 100
Change from preceding year
Seven major Countries
Six Countries Excluding United States
Four European Countries
United States
1973 1974 1975 1976 1977 1978 1979 1980 1981 1982

Leading Business Cycle Indexes



Note: For explanation, see back page

Cyclical Patterns Persist

The business cycle positions of the major industrial countries have changed little since the last issue of the *Scoreboard*. The United States and Canada are deep in recession, while the European countries and Japan show cyclical recovery or continuing expansion. The main developments in the latest data for the composite leading indexes are a slowing of the U.S. contraction and the beginning of an upturn in West Germany.

Impact on U.S. Trade

The continuing weakness in the U.S. leading index suggests that further declines in U.S imports lie ahead. The 4% drop in imports of goods and services in the first quarter measured in constant prices, was the first decline since the current recession began. It is probably only the tip of the iceberg, since the U.S. leading index has dropped 12% from its peak in early 1981. In the 1980 recession the total drop in imports came to 11%, following a 12% fall in the leading index. Similarly, in the 1974-75 recession, imports fell 19%, while the prior drop in the leading index was 13%. The immediate prospects for the exports of U.S. trading partners to this country, therefore, are not bright, and will not become so until the U.S. leading index makes a vigorous upturn.

The other side of the coin, however, looks somewhat brighter. As noted, the leading indexes for the major industrial countries, except for Canada, are all gaining ground. Hence their capacity to import is stronger, which should help U.S. exports. The weakness of the Canadian leading index is not unimportant, however, since Canada takes a larger share of U.S. exports than any other country. Nearly half of the U.S. exports to the six countries in this report goes to Canada, so weakness there has a marked effect on total U.S. exports.

In recognition of this, we have constructed a special leading index for the six countries, i.e., one oriented to U.S. exports. In this index each country is weighted according to the dollar volume of U.S. exports that went to it in 1972 (in the regular index presented in the *Scoreboard* the weights are based on each country's GNP). The accompanying charts (back page) compare this index with total U.S. exports to all countries, in 1972 dollars.

The general configuration of total U.S. exports and the six-country leading index is similar, despite the fact that about half of U.S. exports go to countries other than the six. The decline and recovery from the 1974-75 recession is clearly reflected. So is the slowdown in 1977 and the subsequent acceleration until early 1980. The major difference is in 1981, when the volume of exports

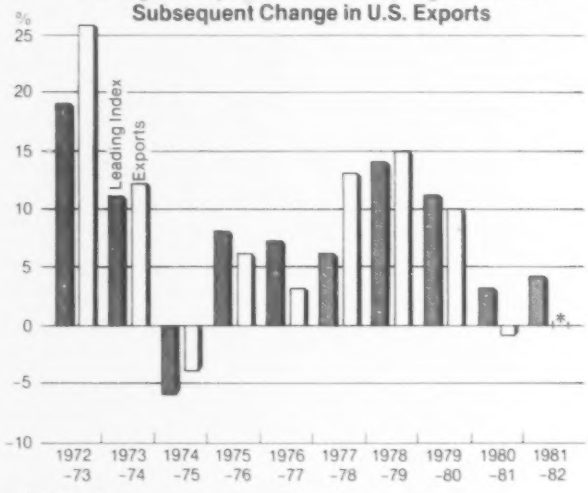
Leading Indexes, Seven Countries, 1980-82

		U.S.	Canada	Japan	U.K.	West Germany	France	Italy	7 Countries	6 Countries ex. U.S.	4 Countries, Europe
						Indexes, 1970 = 100					
Jan.	81	141	187	200	120	134	161	159	150	160	142
Feb.	81	141	188	200	122	134	162	162	150	161	143
Mar.	81	143	190	196	122	134	163	162	151	161	144
Apr.	81	144	190	194	122	134	164	163	152	161	144
May	81	142	191	192	123	134	163	164	150	160	144
June	81	142	190	196	125	134	163	162	150	161	144
July	81	141	191	198	126	133	163	161	150	162	144
Aug.	81	141	188	204	128	133	165	163	152	164	146
Sept.	81	138	184	207	127	133	166	163	150	164	146
Oct.	81	134	183	209	128	134	166	162	148	165	146
Nov.	81	133	181	211	128	134	168	162	148	166	146
Dec.	81	131	184	211	127	134	169	161	147	166	146
Jan.	82	129	181	212	128	135	170	164	146	166	148
Feb.	82	127	180	215	130	135	172	165	146	168	149
Mar.	82	127	179	213	130	137	168		145	167	149
						Percent Change from Preceding Year					
Jan.	81	2	4	−5	−5	−1	2	5	1	−1	0
Feb.	81	2	5	−5	−3	0	3	6	1	0	1
Mar.	81	4	5	−7	−3	0	3	6	2	−1	2
Apr.	81	5	5	−8	−2	0	4	6	2	−1	2
May	81	4	5	−9	−1	0	3	7	1	−1	2
June	81	3	5	−7	1	0	3	5	1	−1	2
July	81	3	5	−5	3	0	3	3	1	0	2
Aug.	81	3	3	−2	4	0	4	5	2	1	3
Sept.	81	1	1	0	4	0	4	4	1	2	3
Oct.	81	−3	−1	2	5	0	4	3	0	2	3
Nov.	81	−4	−2	5	5	0	5	2	−1	3	3
Dec.	81	−7	−1	6	5	1	5	1	−2	3	3
Jan.	82	−8	−3	6	5	1	6	2	−2	4	3
Feb.	82	−10	−4	8	6	2	7	3	−3	4	4
Mar.	82	−10	−5	7	6		4		−3	4	4
Apr.	82	−10									
						Ten-Year Annual Growth Rate, Percent					
1966-76		3	5	8	2	4	5	4	4	5	4

United States Exports and an Export-Oriented Leading Index

Billions of 1972 Dollars
1970 = 100
Total U.S. Exports of Goods and Services, in 1972 Dollars
6 Countries' Leading Index, U.S. Export Weights
1973 '74 '75 '76 '77 '78 '79 '80 '81 '82

Change in Export-Oriented Leading Index and Subsequent Change in U.S. Exports



* Not available

Note: For 1972-73, the change in the leading index is based on the ratio of the December 1972 index to the average index during the preceding twelve months. The change in exports is based on totals for 1972 and 1973. Similar calculations are made for other years.

dropped appreciably while the leading index merely leveled off. The sharp appreciation of the dollar, which made U.S. exports more costly in terms of other currencies, was undoubtedly a key factor here. The same effect in reverse can be seen in 1977-78, when exports rose more rapidly than the leading index, spurred by the dollar's depreciation then.

When the year-to-year changes in U.S. exports are compared with the prior change in the leading index (bar chart), the major swings are reproduced, again with a discrepancy in 1981. For 1982 the leading index suggests a modest gain in exports over 1981. Putting the import and export picture together, the prospect is for some improvement in the U.S. real trade balance.

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A Bimonthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

AUGUST 1982

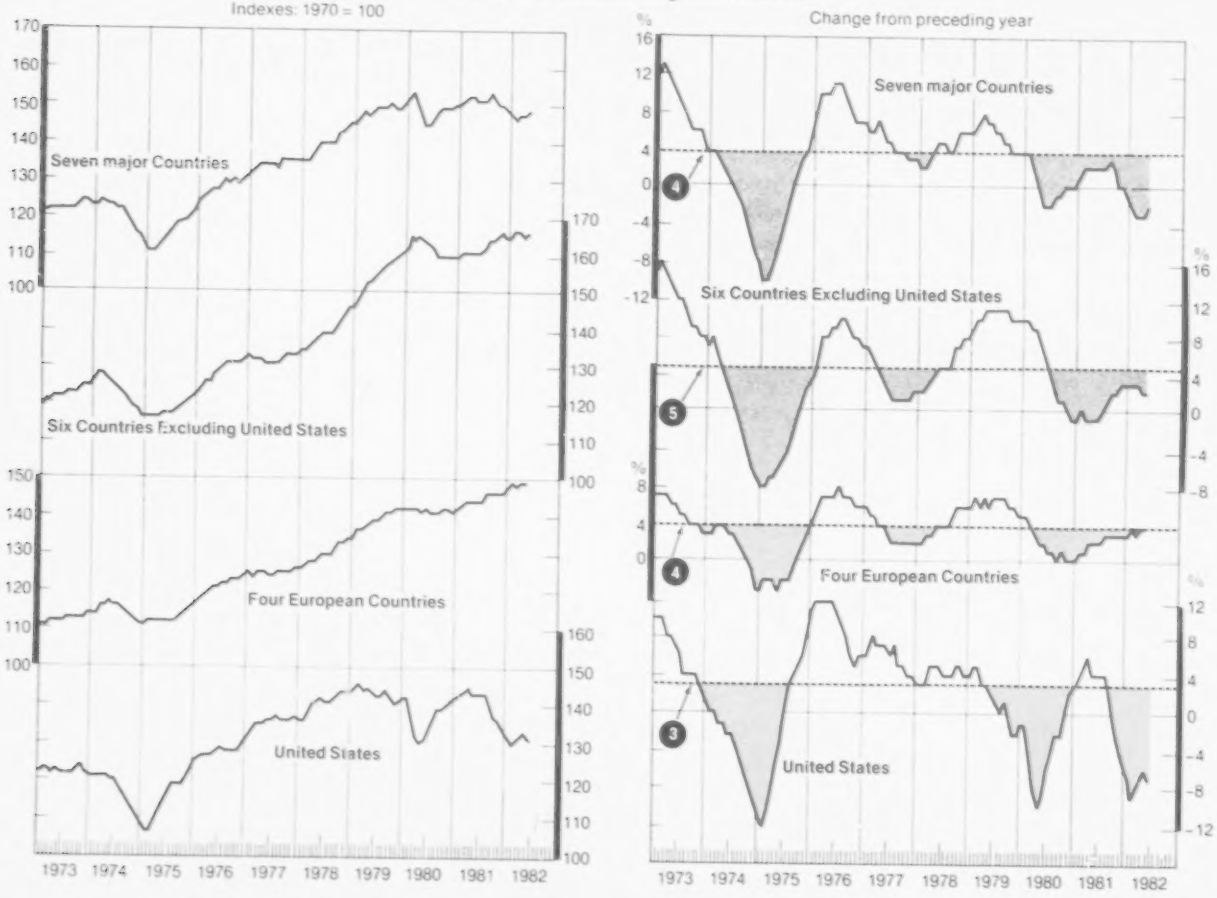
STATUS OF THE LEADING INDEXES

Summary: Advances in the leading indexes for Europe and Japan are moderate—in the 3 to 5% growth range. In North America the contraction is slowing.

	Ten-year Growth Rates	Recent rates of change* 6 mo. ago	3 mo. ago	Latest	Current reading	
		(annual rates, percent)				
United States	3	−10	−11	−6	(June)	Contraction slowing.
Canada	5	− 7	−11	−8	(May)	Contraction slowing.
Japan	8	11	8	3	(May)	Recovery slowing.
United Kingdom	2	6	7	4	(May)	Recovery hesitating.
West Germany	4	0	2	4	(May)	Recovery beginning.
France	5	6	7	4	(May)	Expansion slowing.
Italy	4	1	2	5	(Apr.)	Expansion resuming.
6 countries ex. U.S.	5	4	4	2	(May)	Recovery slowing.
7 countries	4	− 2	− 5	−2	(May)	Slight upturn developing?

*Annual rate based on ratio of current month's index to average index over the preceding 12 months.

Leading Business Cycle Indexes


Indexes: 1970 = 100
Seven major Countries
Six Countries Excluding United States
Four European Countries
United States
Change from preceding year
Seven major Countries
Six Countries Excluding United States
Four European Countries
United States
1973 1974 1975 1976 1977 1978 1979 1980 1981 1982

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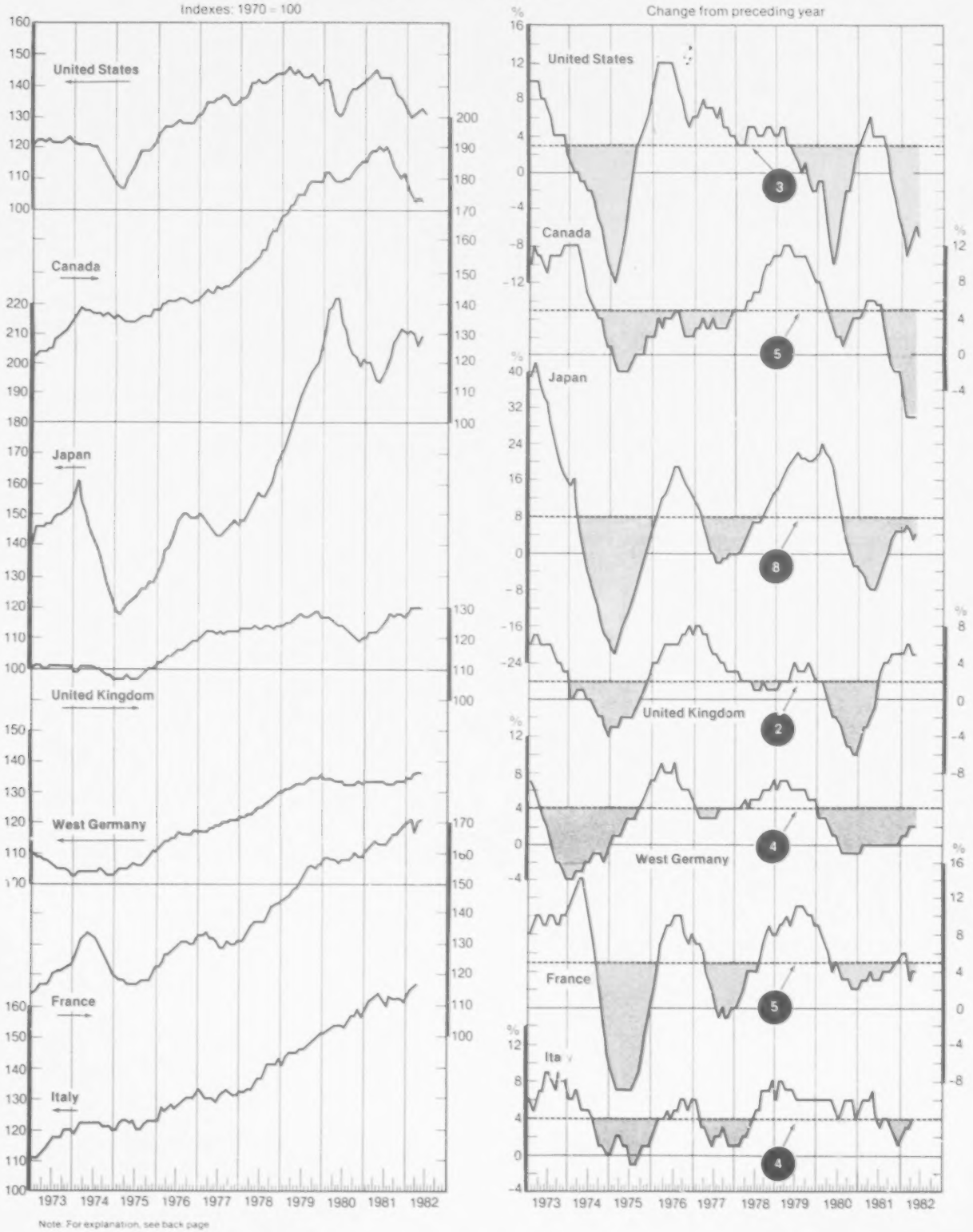
Leading Business Cycle Indexes



Note: For explanation, see back page

Evidence Divided on World Recovery

Prospects for recovery from the world recession are more promising in Europe and Japan than in the U.S. and Canada, according to the most recent data for the leading indicators. The indexes for Japan, West Germany, the United Kingdom, France and Italy have all been registering positive though modest growth rates since early this year. The U.S. and Canadian indexes have continued to decline, but at a slower pace recently. The emergence of a world recovery, therefore, hinges on the development of an upswing in the U.S. and Canada, which is still problematical.

Productivity and the Leading Indexes

The importance of productivity growth has become more widely understood in recent years, in part because productivity trends have weakened significantly. In fact, every one of the seven major industrial countries has experienced a slowdown in the growth of output per employee-hour since the early 1970's.

Slower growth in productivity has serious repercussions in many directions. Unless offset by reduced rates of increase in money wages, slower productivity growth results in higher production costs and upward pressure on prices. Also, advances in workers' real earnings, which are largely governed by productivity gains, are likely to be eroded—and were in fact eroded in most countries in the 1970's.

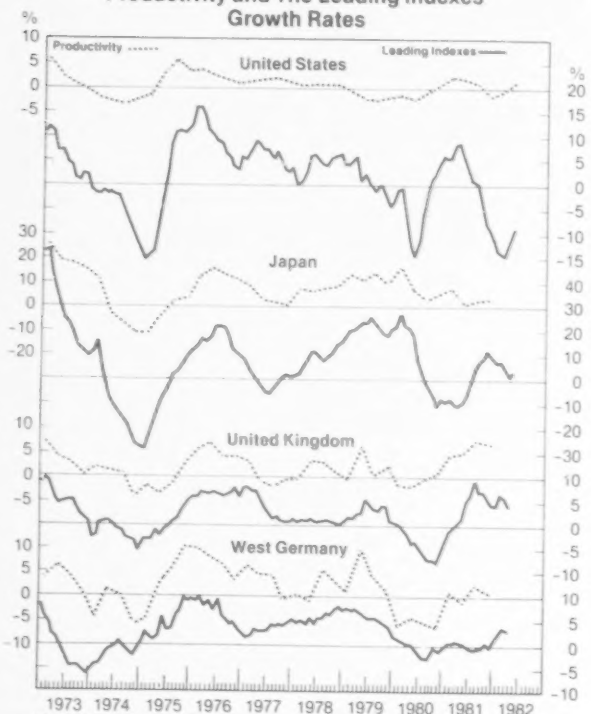
Business cycles play a part in these trends, and they also produce short-run movements that at times offset and at other times augment the trends. The *Scoreboard's* leading indexes exhibit a close affinity to short-run swings in productivity growth, as shown by the data charted for four countries (back page). The correlation is not precise, but there is a clear general correspondence between the movements of the two series. Thus, faster growth in a country's leading index is likely to be accompanied by faster growth in output per hour. Slower growth or decline in the leading index and in productivity also go together. Both lead general business activity, and by about the same amount of time, i.e., the movements of the leading indexes and productivity are roughly coincident with one another.

What this means is that there are important causal influences running in both directions. For example, a

Leading Indexes, Seven Countries, 1981-82

		U.S.	Canada	Japan	U.K.	West Germany	France	Italy	7 Countries	6 Countries ex. U.S.	4 Countries, Europe
						Indexes, 1970 = 100					
Jan.	81	142	186	200	120	134	161	159	150	160	142
Feb.	81	143	188	200	122	134	162	161	151	161	143
Mar.	81	144	189	197	122	134	163	162	152	161	144
Apr.	81	145	189	194	122	134	164	163	152	161	144
May	81	143	190	193	123	134	163	164	151	161	144
June	81	143	189	196	125	134	163	162	151	161	144
July	81	143	190	199	126	133	163	160	151	162	144
Aug.	81	143	188	205	128	133	165	163	153	164	146
Sept.	81	140	184	207	127	133	166	162	151	164	146
Oct.	81	137	182	210	128	134	166	162	150	165	146
Nov.	81	136	180	212	128	134	168	162	150	166	146
Dec.	81	134	182	211	127	134	169	161	148	165	146
Jan.	82	132	177	210	128	135	170	164	147	165	148
Feb.	82	130	175	211	130	135	171	165	146	166	149
Mar.	82	131	173	210	130	136	167	166	147	166	148
April	82	132	174	206	130	137	170	167	147	165	149
May	82	133	173	209	130	137	171		148	166	149
June	82	131									
						Percent Change from Preceding Year					
Jan.	81	3	4	−4	−5	−1	2	5	1	−1	0
Feb.	81	4	5	−5	−3	0	3	6	2	0	1
Mar.	81	5	6	−7	−3	0	3	6	2	−1	1
Apr.	81	6	6	−8	−2	0	4	6	2	−1	2
May	81	4	6	−8	−1	0	3	7	2	−1	2
June	81	4	5	−7	1	0	3	4	2	−1	2
July	81	4	5	−5	3	0	3	3	2	0	2
Aug.	81	4	3	−2	4	0	4	4	3	1	3
Sept.	81	2	1	0	4	0	4	4	2	2	3
Oct.	81	−1	−1	3	5	0	4	3	0	2	3
Nov.	81	−3	−2	5	5	0	5	2	0	3	3
Dec.	81	−5	−2	5	5	0	5	1	−1	3	3
Jan.	82	−7	−5	5	5	1	6	2	−2	3	3
Feb.	82	−9	−7	6	6	1	6	3	−3	3	4
Mar.	82	−8	−7	5	6	2	3	3	−3	3	3
Apr.	82	−7	−7	3	5	2	4	4	−3	2	4
May	82	−6	−7	4	5	2	4		−2	2	4
June	82	−7									
						Ten-Year Annual Growth Rate, Percent					
1966-76		3	5	8	2	4	5	4	4	5	4

Productivity and The Leading Indexes
Growth Rates



Note: Annual rates of productivity growth (output per employee-hour) are based on ratio of current quarter to average of preceding four quarters. Annual growth rates for leading indexes are based on ratio of current month to average of preceding 12 months.

pick-up in new orders will normally soon lead to an improvement in output per hour, because the additional output generated by the larger volume of orders can usually be produced without a commensurate increase in labor input. Here an advance in a leading indicator, new orders, enhances productivity. On the other hand, an improvement in productivity generated, say, by new equipment, can reduce costs and prices and thereby stimulate orders.

In view of this two-way relationship, our summary table of the recent rates of change in the leading indexes (first page) gives some clues to current and prospective productivity growth rates and the factors underlying them. They suggest that the striking improvement in productivity growth in the United Kingdom since 1980 is firmly based, since the growth rates in the U.K. leading index have been marching steadily upward from their low at the end of 1980. For West Germany there has also been an improvement in both the leading index and productivity, but it has been modest in size. In the U.S. a slower decline in the leading index in recent months corresponds with a very small improvement in productivity. In Japan, however, the leading index has shown a modest improvement but productivity has not. On the whole, the signs of improving productivity performance are stronger in Europe than they are in the U.S., with Japan presenting an uncertain picture.

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This bimonthly Conference Board report on the economic outlook in seven major industrial countries is based on an analytical system of leading, coincident and lagging indicators that has become widely used in the United States to appraise the state of the business cycle. Geoffrey H. Moore and Philip A. Klein have developed comparable sets of indicators for six other countries, which are being kept up to date, analyzed, and circulated to subscribers by the Center for International Business Cycle Research at Rutgers University.

The leading indexes shown here are composites based on some 65 indicators that usually anticipate changes in national output or employment by several months. Among the indicators included, whenever available, are new orders, construction contracts, corporate profits and stock prices. (The U.S. leading index used here differs somewhat in composition from the index reported monthly by the U.S. Department of Commerce.)

Experience has shown these indexes to have a persistent tendency to lead output and employment, for reasons deeply rooted in the workings of the business economy. When the leading index begins to rise faster, it is a fairly safe rule that industrial production will soon begin to rise faster too—typically after 3 or 4 months. When the leading index begins to rise more slowly or to decline, industrial production is likely to follow suit shortly thereafter. (For details, see "What the Leading Indicators Indicate," *Across The Board,* April 1980.) Considerable variation in the length of lead is to be expected, however, so that constant monitoring is needed for effective use of the system. Among the uses of these data are tracking recessions and recoveries, anticipating changes in foreign trade flows, and providing early warning of new inflationary trends. To facilitate analysis the indexes are adjusted so their long-run growth rates are equal to those in real GNP in the country concerned during 1966-76. (These growth rates are shown at the bottom of the table and by horizontal lines on the right panel of the charts.)

For More Information and Instruction

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